Special Border Economic Zone in IMT-GT and BIMP-EAGA Subregions

Session 4: Developing CBEZ and Economic Corridors
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27 November 2017
Outline

I. Background: SBEZ Model, Rationale

II. IMT-GT SBEZ (Thailand-Malaysia)

III. BIMP-EAGA SBEZ (Indonesia-Malaysia)
SBEZ Model

What is the difference between SEZ and SBEZ?

**SEZ**
- Near gateways to international markets; lower production and logistics costs of companies
- Objective commercial (profit maximization)

**SBEZ**
- Attract investors in productive activities to promote subregional value chains
- Stimulate cross-border trade and investment
- Catalyst to commerce along economic corridors
- Improve social and economic welfare of population
Why establish SBEZs?

- attract investment; transfer know how and technology
- employment and develop skills
- cross-border trade and investment (along economic corridors)
- social and economic development in border areas
- reduce agglomeration around mega-cities; balanced growth
- “demonstration area”
- complementarity of resources across borders (land, capital, labor)
- utilize resources along borders
- expand markets and economies of scale
How to develop SBEZs?
Cross-border Cooperation Strategy

Level 1
SBEZ facilities on either or both sides of the border

Level 2
Informal SBEZ collaboration cross-border VCIs and infrastructures

Level 3
Joint SBEZ facilities and supporting activities
SBEZ Connectivity & Economic Corridors

Corridor System

Thai-Malaysian Railway Systems

LEGEND:
1 - Extended Songkhla-Penang-Medan Corridor
2 - Straits of Malacca Corridor
3 - Banda Aceh-Medan-Pekanbaru-Palembang Corridor
4 - Melaka-Dumai Corridor
5 - Ranong-Phuket Ace Corridor
SBEZ Linkages to National, Regional and Global Markets

Global Markets

Thailand

Thai-Malaysian Border Region

Indonesia

Malaysia

ASEAN
Scoping Study for the Special Border Economic Zone in the Indonesia-Malaysia-Thailand (IMT-GT) Growth Triangle
SBEZ Network of Activities

Country 1

- Special Economic Zone
- Operations
- Goods
- Regulations
- Customs, Immigration, Quarantine, Security (CIQS)
- Transportation
- Infrastructure
- Learning Centers
- Border Towns

Country 2

- Fiscal incentives, infrastructure and services, supply chains, PPP, zone designation, regulations, safeguards
- Operation practices and technology (R&D)
- Product conformity, standards and regulations; quality infrastructure
- Incentives and commercial regulations and practices
- Trade facilitation: simplification, harmonization, standardization
- Vehicle and rail standards and regulations; logistics centers
- Road, rail, water transport; warehousing; electricity, water, sewage
- Business development service (BDS) centers, higher education
- Urban planning, infrastructure services, social welfare services
SBEZ Component Assessment

1. SPECIAL ECONOMIC ZONES (SEZs)
   - Integrated Development
   - Economic Growth
   - CROSS-BORDER VALUE CHAINS
     - Targeted Border Cluster Areas
     - Integrated Production Systems

2. TRADE & TRANSPORT FACILITATION
   - Connectivity
   - Warehouse & Freight Forwarding
   - Supply Linkages
   - Single Stop

3. INVESTMENT FRAMEWORK
   - Predictable
   - SEZ Access
   - Linking SMEs to Large Companies

4. REGULATORY FRAMEWORK
   - Enabling Environment
   - Small & Medium Enterprise Growth

5. NETWORKING FOR SMEs
   - Connective & Enterprise Growth
   - Logo & Branding

6. BUSINESS DEVELOPMENT SERVICES
   - Training & Education
   - Trade & Investment
   - SME Financing

7. SOCIO-ECONOMIC DEVELOPMENT
   - Monitoring & Evaluation (M&E)
   - BCG
   - Credit Guarantee

8. ECONOMIC GROWTH
   - Inclusive Growth
   - Environment-friendly Growth
## Commercial Focus

- Su Ngai Kolok - Rantau Panjang
- Ban Prakob - Durian Burung
- Sadao - Bukit Kayu Hitam
- Padang Besar (Songkhla & Perlis)
- Betong - Pengkalan Hulu
- Wang Prachan - Wang Kelian
- Takbai - Pengkalan Kubur
- Ban Buketa - Bukit Bunga

## Welfare Focus

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BIMP-EAGA CORRIDORS STUDY
Industries with Potential for Corridor Value Chains

GREATER SULU SULAWESI ECONOMIC CORRIDOR (GSSC)
- Food & Beverage
- Fisheries
- Tourism

WEST BORNEO ECONOMIC CORRIDOR (WBEC)
- Food & Beverage
- Education
- Tourism
- Rubber
- ICT
- Fisheries

Organic and Halal Foods
BIMP-EAGA Border Area Development and Value Chains

Project Context

To address the problems that have prevented a robust expansion of intra-regional trade in BIMP-EAGA.

Cross-Border Trade & Investments

Foreign investments concentrated in large companies with vested interests in extracting raw materials or profiting from low-cost factors of production.

- Border areas lack integrated hard and soft infrastructure.
- SMEs lack knowledge about how to participate in value chains.
- Project feasibility studies are proprietary to large investors (company or individual investment groups).
- Non-monetarized investment goals are government driven, rather than balanced with other stakeholder groups (SMEs, local households, NGOs)

Indicator

Intra-BIMP-EAGA trade in the last 10 years has remained stagnant.

- Between 2000 and 2007, intra-regional trade relative total trade rose from 4.5% to 6.7%
- Since 2007, however, intra-regional trade shares have remained virtually unchanged.

Connectivity

Air, road and sea connectivity between BIMP-EAGA member country areas is often limited.

- Road connectivity between Borneo’s Malaysian states and the Kalimantan provinces is rudimentary or nonexistent.
- The Sulu Sea area has been subject to terrorist threats, insurgent activities, and kidnappings.
- Air connectivity between BIMP-EAGA territories are often limited or require long, indirect routings.

Driver

Value Chains

Intra-BIMP-EAGA Intra-Regional Trade as Percent of Total Trade

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<th>Value</th>
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Precondition

ADB

50 Years
BIMP-EAGA Border Area Development and Value Chains

Example of Possible Project Approach based on Pilot Project

Possible Approach

Structure of Sabah-North Kalimantan Pre-Feasibility Study:

1. Border Area Development

2. Project Appraisal

3. Project Selection

Geographic Coverage

Cluster Components

Project Analysis

Preference Groups

Preference Ordering

Project Rankings

ADB
Project Components for Pre-Feasibility Study

1. Economic Profiles
2. Government Objectives
3. Economic Analysis of Traded Goods
4. Economic Analysis of Traded Services
5. Program Design
6. Cost-Benefit Analysis
7. Non-Monetarized Project Appraisal
8. Overall Program Appraisal & Execution Strategy
Example from Sabah-North Kalimantan Pre-Feasibility Study

Components of Sabah-North Kalimantan Pre-Feasibility Study:

- **Step One**: Consultations with Governments of Indonesia and Malaysia
- **Step Two**: Fieldwork: SWOT analysis, non-government stakeholder consultations, industry site visits
- **Step Three**: Economic analysis, cross-border supply and value chain designs
- **Step Four**: Monetarized project appraisal, infrastructure requirements, cost and benefits estimates, and gap analysis
- **Step Five**: Non-monetarized project goals, stakeholder ratings, and project rankings
- **Step Six**: Overall program appraisal, including program EIRR and other matrices, non-monetarized project rankings, and implementation strategy

8 Months to Completion
BIMP-EAGA Border Area Development and Value Chains

Results: Monetarized Project Benefits Sabah-North Kalimantan

Sabah: Overall program Economic Internal Rate of Return (EIRR) = 22.6%

North Kalimantan: Overall program Economic Internal Rate of Return (EIRR) = 22.1%

Note: Percentage figures in boxes refer to Economic Internal Rate of Return (EIRR)
**Sabah** – Impact of Cross-Border Road Construction on Program's Economic Net Present Value of Trade in Goods (US$ million)

- With Road: $286
- Without Road: $63
- Difference: -$223

**North Kalimantan** – Impact of Cross-Border Road Construction on Program's Economic Net Present Value (US$ million)

- With Road: $318
- Without Road: $62
- Difference: -$256
### Beyond Inward Looking Strategies will Require Deeper Changes

<table>
<thead>
<tr>
<th>Business as usual...</th>
<th>...or a bolder approach?</th>
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<td>Export-driven strategy</td>
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<td>Export multiplier goal</td>
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Thank you